

BILL # HB 2084

TITLE: sales tax exemption; fire apparatus

SPONSOR: Huffman

STATUS: As Amended by House Ways and Means

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FISCAL ANALYSIS

Description

As amended, the bill would exempt all fire districts and fire departments from paying the Transaction Privilege Tax (TPT) on all fire trucks with a gross weight of at least 17,000 pounds. Private organizations, such as Rural Metro, would not be exempt from the tax. The bill will be effective August 31, 2006.

Estimated Impact

The bill as amended would reduce General Fund revenues by \$(2.3) million in FY 2007 and by \$(2.7) million in FY 2008, once fully implemented. Proposition 301 education revenues would decline by \$(370,000) in FY 2007 and \$(444,000) in FY 2008.

In addition, the total city and county revenue loss, once fully implemented, would be \$(969,500).

Analysis

There are 2 types of fire trucks that meet the 17,000 pound exemption requirement: pumper and ladder trucks, which are both used to respond to emergencies and suppress fires. Based on information supplied by fire truck manufacturers in Arizona, there are between 100 and 150 pumper trucks, and between 10 and 50 ladder trucks, sold per year in the state. The above estimate assumes a midpoint of 155 fire trucks sold per year in Arizona, 125 of which are pumpers and 30 of which are ladders. The bill would not exempt private fire organizations, which purchase about 10 trucks per year. Given the relative uncertainty regarding the overall sales range, the sales range has not been adjusted for the comparatively small number of private fire organization sales.

Arizona fire truck consultants estimate the cost of a pumper truck to be between \$325,000 and \$500,000. This estimate assumes an average cost of \$400,000. For a ladder truck, the cost is estimated to be between \$675,000 and \$1.0 million. An average cost of \$800,000 was used in these calculations.

Based on the above assumptions, there is a total of \$74.0 million worth of pumper and ladder truck sales in Arizona each year. At the state sales tax rate of 5.6%, total taxes currently being collected are estimated to be \$4.1 million annually. See *Table 1* for associated dollar values.

Table 1					
Estimated Revenue Loss					
	<u>State General Fund</u>	<u>Prop 301</u>	<u>Cities</u>	<u>Counties</u>	<u>Total</u>
FY 2007	\$2,275,300	\$370,000	\$308,300	\$499,600	\$3,453,200
FY 2008	\$2,730,500	\$444,000	\$370,000	\$599,500	\$4,144,000

Local Government Impact

TPT revenues are shared with local governments and any reduction in these collections would result in decreased funding for local governments. Once fully implemented, the proposal would reduce city and county sales tax revenues by an estimated \$370,000 and \$599,500 per year, respectively. As a result of the lower cost associated with the tax exemption, however, local jurisdictions that purchase fire trucks would generate a savings greater than their loss of state shared revenues.

Besides the tax at the state level, the cities and counties assess their own individual sales taxes. This legislation would not exempt fire districts from the local tax; however, the local governments already have the authority to grant exemptions.

2/1/06